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SENSITIVE  
SIPDIS

STATE FOR EAP/MLS MBROWN  
SINGAPORE FOR TREASURY  
HHS/OSSI/DSI PASS TO OGHA (WSTEIGER/MLVALDEZ/MABDOO)  
TREASURY FOR SCHUN  
USTR FOR DBISBEE  
USAID FOR ASIA/AA MELLIS; EAA/ASIA DSHARMA; ODP/OD KTURNER

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TAGS: [ECON](#) [PGOV](#) [EAID](#) [VM](#)  
SUBJECT: Vietnam's 2008 Consultative Group Meeting

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¶1. (U) Summary: Vietnam's fifteenth annual Consultative Group meeting took place on December 4 and 5 in Hanoi against a broader media backdrop of the corruption scandal that led Japan to suspend nearly a billion dollars in bilateral development assistance (septel). The core theme throughout the dialogue was the need for transparency and competitiveness during a time of global economic difficulty. Topics discussed include Vietnam's macroeconomic situation, poverty reduction, health care, aid effectiveness, corruption, public administration reform and climate change. End Summary.

¶2. (U) Vietnam's fifteenth annual Consultative Group (CG) meeting took place on December 4 and 5 in Hanoi. The CG is an opportunity for multilateral and bilateral donors to express their positions on a wide range of issues directly to high level GVN representatives. PM Nguyen Tan Dung attended the morning of the first day, with Minister of Planning and Investment (MPI) Phuc and other ministers and vice ministers speaking on behalf of the GVN after his departure. (Note: Since many countries have their President or Prime Minister (PM) attend only the last day of summaries and dinners, the PM's attendance on the morning of the first day and his interactive role on tough issues is a sign of GVN recognition of the importance of dialogue with donors. End note.)

¶3. (U) In his opening remarks, the PM noted that inflation control had been the GVN's top priority throughout much of 2008 but that the focus had recently shifted to address the impact of the economic downturn and to meet the goals set by the National Assembly. Specifically, he said, the GVN would: endeavor to boost production and exports, especially by small and medium enterprises (SMEs); stimulate investment and consumption; ensure social security and poverty reduction; apply "flexible, suitable and effective" monetary policy to prevent inflation and stimulate exports; and, pursue better administrative reform and anti-corruption efforts, including improved macroeconomic forecasting and SOE monitoring. The World Bank (WB) complimented the GVN on its rapid action on inflation and the trade imbalance earlier in the year, noting that the while inflation called for a monetary response, the current global downturn called would require a carefully balanced fiscal solution.

MACROECONOMIC STABILITY IS TOP PRIORITY

14. (U) Following opening remarks, the first session addressed Vietnam's socio-economic situation and policy responses. MPI's Phuc presented a report on Vietnam's 2006-2010 Development Plan which highlighted 7.8 percent growth over the last three years and 42 percent of GDP being produced by the private sector. The report noted weaknesses in macroeconomic structuring and stability, supply of quality labor, infrastructure and environmental safeguards. The subsequent IMF statement focused on the macroeconomic challenges in the year ahead by encouraging the careful balancing of growth and stability objectives, a more flexible exchange rate policy and a more conservative fiscal stance, especially with regard to inefficient capital projects. The statement also called for a framework to address any vulnerability in the banking sector, improved data quality and communication and increased structural reforms, especially in the areas of banks and SOEs. The lead donor statement echoed many of these themes, and also advocated for continued implementation of WTO commitments, SME support and increased competitiveness.

15. (U) The PM replied, "Macroeconomic stability is now our top priority, because without it we cannot sustain growth." He vowed tight but flexible monetary and fiscal policy and an exchange rate that follows "supply and demand market principles to promote exports, growth and macroeconomic stability." The PM promised that Vietnam would continue to implement its WTO commitments as well as any other bilateral or multilateral commitments. He acknowledged concerns about transparency, saying that "we have tried but we know we have to do more so that investors can better understand our situation."

16. (U) Individual donors then spoke on a wide range of issues. First to deliver remarks was the Ambassador from Japan, who suspended low interest loans to Vietnam pending "meaningful measures" on corruption (septel). Important themes for subsequent

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donors included increased accountability and transparency, continued poverty reduction efforts and the need for ongoing structural reforms, especially in the state sector. The U.S. Ambassador noted that competitiveness and transparency are critical for Vietnam during a time when developing countries are forced to compete for a shrinking pool of investment capital. The World Bank noted a need for coherence in public spending, private partnerships and faster implementation for infrastructure development, data transparency and SOE management reform and equitization. The PM responded that, given the financial crisis, all measures and policies will be aimed at maintaining macroeconomic stability and growth.

#### POVERTY REDUCTION SLOWS

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17. (U) Following the departure of the PM, afternoon discussions turned to poverty reduction and health finance reform. On poverty, the GVN acknowledged that poverty reduction is slowing, with the estimated target of 11 to 12 percent by 2010 "unlikely." The UK led the donor response, complimenting the GVN on "35 million lifted out of poverty over the past 13 years", yet pointing out that new patterns of poverty are being seen in Vietnam, notably among increasing numbers of urban migrants, whose mobility makes them difficult to reach and among ethnic minorities where there are greater signs of hunger. Strong coordination between ministries was urged, as well as targeted programming at the district and commune level. Donors lauded the new Health Insurance and Unemployment Compensation Laws as important social safety nets for at-risk populations. MPI's Phuc responded that programs were already in place to address ethnic minority poverty, but that urban poverty was a new challenge. He cited unemployment compensation and other programs directed at the 61 poorest districts in which over 90% of populations include ethnic minorities in the mountainous areas of the country as critical to addressing the effects of the global downturn.

#### HEALTH BUDGET ON LIFE SUPPORT

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18. (U) The Ministry of Health (MOH) began the session by admitting

that although health expenditures had increased, Vietnam is only spending 5 to 6 percent of its budget on health, far below the 10 percent recommended by the WHO. [Note. While the amount the GVN commits to health has increased, as a percentage for of GDP/person adjusted for inflation, the rate is flat, around 5 to 6 USD per person per year. Meanwhile out-of-pocket expenses have gone through the roof, about 32 cents in 2000 and now over USD 43 per person per year. End Note] MOH made an appeal for additional resources, citing needs for training, improved hospital systems and a basic health network to provide preventative care. Donors praised the recent passage of Vietnam's first Health Insurance Law and asked for speedy dissemination of implementing guidance. Many, including the U.S. Ambassador, spoke about the need for strengthening overall health systems as an important balance to complement and help sustain disease-specific approaches. Donors also congratulated the GVN on its HIV programs, but cautioned that donor funding of approximately 80 percent of those programs is not sustainable as Vietnam approaches middle income status. The GVN responded that a budget increase had been discussed at the National Assembly but would not be possible in 2009 due to spending in other areas, but welcomed additional donor support for health programs.

#### OVERALL AID EFFECTIVENESS GETS HIGH MARKS

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¶9. (U) Donors complimented the GVN for its leadership on the Hanoi Core Statement and for the PM's endorsement of the Accra Action Agenda. The Partnership Group on Aid Effectiveness, comprised of both GVN and donor representatives, said that challenges remain due to low participation and buy-in by line ministries, difficulty translating GVN policies into action plans, and lack of GVN capacity and adequate country systems. The Swiss representative noted that aid effectiveness discussions should go beyond donors and government to include the private sector and civil society. The Korean Ambassador raised an oft-mentioned point about the GVN's need for "a certain confidence in the predictability of ODA," e.g., through multiyear commitments by donors that would enable medium and long term planning.

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#### CORRUPTION STILL A CRITICAL ISSUE

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¶10. (U) For the opening session on December 5, the GVN provided a summary of the annual Anti-Corruption Dialogue which took place on November 28. The theme of this year's dialogue was "The Role of the Media in Anti-Corruption." The GVN acknowledged the need to improve asset declaration requirements and transparency and to intensify public and mass media participation in anti-corruption efforts through an improved legal framework and training for journalists. Lead discussant Sweden, supported by the United States and many others, said that more must be done to achieve a substantial impact on corruption and that a zero tolerance policy should be implemented. Switzerland said that the "collateral damage of the PMU 18 scandal (in which reporters who exposed a major government corruption case were subsequently jailed) is its devastating effect on the image of Vietnam." The United States and others called for the amendment of the draft press law, the creation of whistleblower legislation, and an independent judiciary. (Note: A group of donors, including the United States, recently sent a letter to the Chairman of National Assembly (NA) expressing serious concern about the draft press law. End note) The World Bank asked for patience on corruption issues, commenting that "the media must be told not to cross the line but to do their job and report on corruption."

¶11. (U) The Government Inspectorate (GI) responded that the U.N. Convention on Anti-corruption would soon be submitted to President for ratification and then reported to the NA. The GI acknowledged that the role of public and mass media in fighting corruption is important, adding "we have discussed the (PMU 18) journalists before but I don't think you are satisfied." MPI's Phuc said that Press Law being considered by NA "is to protect journalists but journalists have their own social responsibility."

## UNANIMOUS SUPPORT FOR PUBLIC ADMINISTRATION REFORM

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¶12. (U) A vice minister from Internal Affairs delivered an update on Project 30, the GVN's administrative reform project, noting that the task force, advisory council and working groups have been established. In addition to Project 30, the Law on Civil Servants was recently passed and now must be implemented. The lead donor statement, delivered by Ambassador Michalak, congratulated the GVN for undertaking Project 30 and encouraged rapid and comprehensive implementation. Many donors, including the U.S., also asked Vietnam to consider involvement in the Extractive Industries Transparency Initiative, which aims to strengthen governance by improving transparency in revenue flows between oil, gas and mining companies and their host governments. The GVN thanked the donors for their interest in administrative report and asked for additional support for the implementation of Project 30.

## DONORS PLEASED WITH CLIMATE CHANGE PLANNING

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¶13. (U) The Ministry of Natural Resources and the Environment reported that the National Target Plan to Respond to Climate Change was formally approved by PM just days earlier. The Plan requires a budget of about \$115 million from now until 2015 so additional donor support is needed. The GVN also reiterated its commitment to maintaining current emissions thresholds. The donors, led by Denmark, said that a favorable response on funding and technical assistance would likely be forthcoming but that additional information on implementation of the Plan was necessary. The donors also admitted that coordination amongst themselves was critical to moving forward.

¶14. (SBU) Comment: The GVN obtained \$5.014 billion in ODA commitments for 2009, but that figure does not include Japanese loans that would bring the figure to \$6 billion, compared to about \$5.4 billion last year. MPI's Phuc called the amount a "great achievement given financial difficulties," but Japan's suspension of soft loans undoubtedly took much of the shine off of this year's CG (septel). Nevertheless, the tone of this year's CG remained largely amicable and productive throughout. Donors remain optimistic about

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Vietnam's medium to long term prospects, despite more immediate concerns about the effects of the financial crisis. End comment.